Bob Brinker's Marketimer

Volume 18, No. 8 www.bobbrinker.com August 7, 2003

"We've reached a funny position where long run doesn't work; where the long run evidence doesn't fit circumstances as they are today. Forget investing for the long haul. The long run, right now, is irrelevant."

...Peter Bernstein

STOCK MARKET TIMING UPDATE DJIA: 9186.04 S & P 500: 982.82

The **Marketimer** stock market timing model returned to favorable territory on March 11, 2003 with the Standard and Poor's 500 Index trading near the 800 level. The index closed at 807.48 on March 10 and 800.73 on March 11, the day the **Marketimer** buy signal was issued. At that time, we projected a cyclical bull market with a duration of approximately one to three years, and a gain in excess of 25% as measured by the Standard and Poor's 500 Index. Subscribers who took advantage of our buy signal were able to reinvest their stock market cash reserves at a price level approximately 45% below the level of the January, 2000 **Marketimer** sell signal.

Although the stock market does not move in a straight line, the price action since mid–March has been encouraging, and indicates that the mid–March test of the October, 2002 lows provided an attractive buying opportunity in the aftermath of a three–year bear market. This month we are updating our primary indicators in the **Marketimer** stock market timing model:

Economic Cycle:

The U.S. economy is experiencing the most favorable fundamental underpinnings in modern history. Fiscal policy is highly stimulative, with new tax cuts now moving through the economy. We estimate the new tax package will provide close to $120 billion in economic stimulus through 2004. Monetary policy remains "easy", with short–term rates near 45–year lows and real short rates in negative territory adjusted for inflation. The Federal Reserve Dollar Index has declined close to 11% over the past year. This has made U.S. exports more attractive in overseas markets. We view all of these factors as favorable for the U.S. economy.

Monetary Policy:

The Federal Reserve has stated that the current policy of monetary accommodation is likely to continue until the economy begins a major sustainable recovery. Year–over–year consumer price inflation remains very low at 2.1%. The core inflation index, which excludes the volatile food and energy segments, stands at only 1.5%. The Fed seems more concerned about the risk of deflation, and therefore we expect to see a friendly Federal Reserve going forward. The official federal funds rate of 1% is the lowest since 1958.
The President has indicated that he would be comfortable reappointing Alan Greenspan for additional service as Fed Chairman, and this has removed the uncertainty of the chairmanship from the financial media for the foreseeable future.

Continued on page 2...

Valuation:

Based on our current estimate of $47.10 in 2003 operating earnings for the Standard and Poor's 500 Index, the market is trading at a multiple of 20.9 times earnings. Using our estimate of $52.00 in 2004 operating earnings for the index, the market is trading at a forward P/E ratio of 18.9 times earnings. Based on inflation alone, the average P/E ratio for the Standard and Poor's 500 Index during periods of very low inflation has been close to 18.5. However, the range has been wide, with a low of 16 and a high of close to 30. Also, there are many other factors that influence P/E ratios, including interest rates, earnings quality, profit growth visibility, and return on equity. In our view, the market is currently priced at a valuation level that is consistent with the outlook for economic recovery into 2004. However, a further increase in interest rates would not be helpful to the recovery scenario going forward.

Sentiment:

We monitor several gauges in an effort to assess the level of stock market sentiment on an ongoing basis. The ten–day put/call ratio can provide insight into the level of optimism or pessimism in the market, and works as a contrary indicator. The ten–day put/call ratio remains relatively high at this time, thereby indicating a considerable level of skepticism about the market's potential. However, other short–term sentiment readings, including the ten–day trading index (TRIN), are showing a lack of extreme sentiment at this time. Another contrary indicator, the four–week moving average of bulls as a percentage of bulls plus bears as measured by **Investors Intelligence**, continues to show a high level of bullish sentiment among investment newsletter writers. Historically, such readings have not been encouraging in terms of the short–term market outlook.

In summary, we expect inflation to remain low, Federal Reserve monetary policy to remain accommodative, and we regard the current level of valuation as appropriate when viewed within the context of anticipated corporate profit growth into 2004. In our view, the sentiment indicators are not providing any special insight into the stock market outlook at this juncture. This is not unusual, since the best contribution from the sentiment gauges usually occurs at stock market extremes, the last of which occurred during the successful retest of the major bear market lows in mid–March.

We continue to view the practice of chasing stock market rallies within a secular bear megatrend as a risky proposition. We prefer to focus on identifying stock market price levels that offer low–risk entry opportunities. Those adding new money to the market at current prices are accepting the fact that potential returns will be much lower than those that were available at the prices that prevailed in mid–March. Furthermore, those adding new money at current prices are accepting the increased risk that will become apparent in the event a retracement of the recent rally occurs.

These realities make it important for investors to assess their personal risk tolerance when making decisions about investing new money in a market that has had a sensational rally over the past several months. In the event we see additional testing and probing in the area of the major bear market lows below the Standard and Poor's 500 Index level of 810, we would view such weakness as an additional buying opportunity. We are unable to generate any enthusiasm for investing new money during periods of strength, however a gradual dollar–cost–averaging approach can be used by those who have a tolerance for further stock market volatility.

FEDERAL RESERVE POLICY UPDATE

The Federal Open Market Committee will reconvene on August 12 to review the latest economic data and decide whether any change will be made to the short–term interest rate landscape. At their last meeting in late July, the FOMC lowered the federal funds rate 0.25% to a 45–year low of 1%. After that meeting, the FOMC made the following observations as they shared their insight on economic conditions:

"The Committee continues to believe that an accommodative stance of monetary policy, coupled with still robust underlying growth in productivity, is providing important ongoing support to economic activity. Recent signs point to a firming in spending, markedly improved financial conditions, and labor and product markets that are stabilizing. The economy, nonetheless, has yet to exhibit sustainable growth. With inflationary expectations subdued, the Committee judged that a slightly more expansive monetary policy would add further support for an economy which it expects to improve over time. The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal."

Real Gross Domestic Product growth has remained slow during the first–half of 2003, with first quarter growth of 1.4%, and second quarter growth of 2.4%. However, a huge increase in defense spending was responsible for an estimated 0.7% of the second quarter figure, which means the economic malaise has continued. This slow pace of economic activity has made it difficult for corporations to grow their revenues, and has forced many firms to hold down costs in an effort to support profits. However, in terms of what can be done about the economy, just about everything has now been done. The Fed has reduced short–term interest rates to negative territory in real terms, plus two major tax–reduction efforts have been passed. In addition, the dollar has weakened thereby supporting the U.S. export account. So the policymakers can make minor additional moves, but they will also need the patience to allow their past efforts to gain traction. For now, the economic signs remain mixed, and there has been no increase in jobs so far this year.

Monetary growth remains vigorous as the Fed continues to provide financial liquidity to the system. The monetary base shows real year–over–year growth of 7.2%, up from 4.4% last month. The narrowly defined M–1 money supply, which consists mainly of currency in circulation and demand deposits, shows year–over–year real growth of 4.5%, versus 5% last month. The more broadly defined M–2 monetary aggregate shows year–over–year real growth of 6.1%, versus 6.3% last month.

Latest Monthly Data ($ billions)	**July 2003**	**July 2002**	**Y-O-Y Changes**	**Real Y-O-Y* Changes**
Monetary Base	$ 743.2	$ 680.0	+ 9.3%	+ 7.2%
M–1	$ 1,266.1	$ 1,188.3	+ 6.6%	+ 4.5%
M–2	$ 6,084.2	$ 5,623.4	+ 8.2%	+ 6.1%

* Real changes year–over–year, adjusted for consumer price index increase of 2.1% for the 12-month period through June 30, 2003.

MODEL PORTFOLIO EXPENSES

The **Marketimer** model portfolios feature low annual expense ratios, thereby allowing subscribers to keep their investment returns without unnecessary overhead. Here are the current model portfolio annual expense ratios based on current holdings:

Model Portfolio I:	0.78
Model Portfolio II:	0.61
Model Portfolio III:	0.37
Active/Passive:	0.26

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.* OBJ.	SIZE MIL.$	% Total Return '98	'99	'00	'01	'02	'03 (7-31)	$1000 INV. 1-1-98=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 7-31-03
Baron Growth Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766 www.baronfunds.com	G BGRFX	$1676	0.1	44.7	(4.6)	12.7	(12.3)	20.0	$ 1639	0.0%	#	1.40%	32.29
Baron Small Cap Fund 767 Fifth Avenue 49th Floor New York, NY 10153 800-992-2766 www.baronfunds.com	CGA BSCFX	$ 1005	2.2	70.8	(17.5)	5.2	(9.7)	25.8	$ 1721	0.0%	#	1.39%	16.82
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554 www.gabelli.com	G GABAX	$ 1744	15.9	28.5	(2.4)	0.2	(14.3)	13.4	$ 1415	0.0%	Yes	1.37%	32.04
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200 www.tiaa-cref.org/mfs	Russell 3000 TCEIX	$ 246	---	---	---	(11.6)	(21.5)	15.1	---	1.0%	Yes	0.26%	7.17
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200 www.tiaa-cref.org/mfs	G&I TIGIX	$ 580	30.5	24.5	(7.3)	(13.4)	(23.9)	11.6	$ 1108	1.0%	Yes	0.43%	10.09

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income
a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.
b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.
\# Telephone redemption available.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.[*] OBJ.	SIZE MIL.$	% Total Return '98	'99	'00	'01	'02	'03 (7-31)	$1000 INV. 1-1-98=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 7-31-03
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979 www.dodgeandcox.com	G&I DODGX	$ 19611	5.4	20.2	16.3	9.3	(10.5)	14.4	$ 1649	1.7%	#	0.55%	99.84
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco,CA 94104 800-621-3979 www.dodgeandcox.com	G&I DODBX	$ 9852	6.7	12.0	15.1	10.0	(2.9)	11.1	$ 1632	3.1%	#	0.53%	66.58
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 www.vanguard.com	Social Index VCSIX	$ 132	---	---	(9.0)	(14.1)	(24.2)	16.3	---	0.8%	Yes	0.25%	6.77
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623 www.schwab.com/funds	G SNXFX	$ 2571	27.1	21.0	(8.2)	(12.3)	(21.2)	14.0	$ 1112	1.1%	Yes	0.46%	28.35
Vanguard Balanced Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 www.vanguard.com	G&I VBINX	$ 3370	17.8	13.6	(2.0)	(3.1)	(9.5)	9.3	$ 1257	3.0%	No	0.22%	16.90
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	$ 64841	28.6	21.1	(9.1)	(12.0)	(22.1)	13.6	$ 1102	1.5%	No	0.18%	91.59

R) 0.50% redemption fee on shares held less than six months.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.[*] OBJ.	SIZE MIL.$	% Total Return '98	'99	'00	'01	'02	'03 (7-31)	$1000 INV. 1-1-98=	EST.[a] YD.	TEL. SWCH	ANN.[b] EXP.	PRICE 7-31-03
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	$ 3253	8.3	36.2	(15.5)	(9.2)	(18.1)	22.7	$ 1137	1.1%	No	0.25%	22.99
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	$ 3608	(2.6)	23.1	(2.7)	3.1	(20.0)	22.9	$ 1182	1.4%	No	0.24%	19.25
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	$ 18871	23.3	23.8	(10.6)	(11.0)	(21.0)	15.4	$ 1107	1.4%	No	0.20%	23.02
Vanguard International (z) Growth Portfolio (address/phone above)	Non USA VWIGX	$ 5549	16.9	26.3	(8.6)	(18.9)	(17.8)	12.3	$ 1010	1.8%	Yes	0.52%	13.65
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX www.troweprice.com	$ 817	25.8	19.7	(6.7)	(20.7)	(18.7)	11.6	$ 1011	2.7%	Yes	1.01%	14.38
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX www.longleafpartners.com	$ 1469	---	24.4	25.9	10.5	(16.5)	22.5	---	1.1%	#	1.79%	12.21
Rydex OTC Fund 9601 Blackwell Road Suite 500 Rockville, MD 20850 800-820-0888	CGA RYOCX www.rydexfunds.com	$ 559	86.5	100.6	(37.8)	(34.7)	(38.6)	28.7	$ 1201	0.0%	Yes	1.08%	8.74

x) Vanguard Index Extended and Sm all Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification;
annual expense ratios on these funds are extraordinarily low.
z) Vanguard International Growth Fund charges a redemption fee of 2% on sales of shares held less than two months.
#) telephone redemption available

INTEREST RATES / FIXED-INCOME INVESTING

Marketimer continues to recommend a conservative approach to fixed–income in–vesting in view of the low level of interest rates and the potential for economic recovery going forward. Our fixed–income portfolio has a current weighted average duration of 3.8, and a current weighted average yield of 3.8%. The weighted average maturity is 6.2 years. This duration suggests that a one percent rise in correspond–ing interest rates would result in an estimated 3.8% decline in net asset value. This portfolio is designed for subscribers who invest all of their financial assets in fixed–income securities.

Fund	Weighting	Yield	Average Maturity	Duration
Vanguard Ginnie Mae Fund (800–662–7447)(VFIIX)	35%	4.37%	2.3	2.1
Vanguard Inflation-Protected Securities (VIPSX)	25%	1.62%*	11.8	6.5
Vanguard High-Yield Corporate (VWEHX) **	15%	6.81%	6.6	4.4
Dodge & Cox Income Fund (800–621–3979) (DODIX)	25%	3.23%	5.9	3.3

* plus inflation adjustments based on the consumer price index and paid quarterly.

** Vanguard High–Yield Corporate has temporarily closed to new investors. New sub-scribers may substitute either TIAA–CREF High Yield Fund (TCHYX), or Payden High Income Fund (PYHRX).

For tax–exempt investing, we prefer state general obligation bonds with matu–rities of ten years or less. These bonds have date–certain maturities which provide full repayment of principal if they remain solvent. The Monday **New York Times** pub–lishes weekly listings of upcoming tax–exempt new offerings each week.

Vanguard Prime Money Market Fund currently yields 0.79%, and Vanguard Tax-Exempt Money Market Fund currently yields 0.76%.

ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive portfolio remains fully invested based on the mid-March buy signal. This portfolio currently holds 90% of assets in Vanguard Total Stock Market Index, which tracks the Wilshire 5000 Index and features very low expenses along with tax–efficiency and broad diversification. The portfolio also holds a 5% position in T. Rowe Price European or Vanguard European Index, and a 5% position in Vanguard International Growth Fund. The portfolio seeks long–term growth of capital.

INDIVIDUAL ISSUES

Marketimer recommends diversifying individual company risk by limiting ex–posure in any one company to no more than 4% of equities. We currently have a “hold” rating on the issues listed, however we rate these issues as attractive for purchase anytime the Standard and Poor’s 500 Index trades below the 810 level.

Issue (Symbol)	Beta	Exchange	8-4 Close	Estimated earnings per share	
Microsoft (MSFT)	1.27	Nasdaq	26.18	1.05 (6-04)	1.10 (6-05)
Vodafone (VOD)	1.10	NYSE	18.84	1.28 (3-04)	1.42 (3-05)
S&P Dep. Receipts (SPY)	1.00	AMEX	98.51	4.71 (2003)	5.20 (2004)
Total Market VIPERs (VTI)	1.02	AMEX	93.75	n/a	
DJIA Diamonds (DIA)	0.92	AMEX	91.94	5.09 (2004)	5.73 (2004)
Nasdaq 100 Index (QQQ)	1.67	AMEX	31.45	n/a	

* **Marketimer** estimates the 40 largest profitable companies in the Nasdaq 100 Index trade at an average P/E ratio of 40.7 times estimated 2003 operating earnings. These companies comprise about 74% of the Nasdaq 100 Index total market capitalization.

MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

MARKETIMER MODEL PORTFOLIO I ($20,000 value on 1-1-88)

Current Holdings	Symbol	%	Beta	Value 7-31-03	% Change
Baron Growth	BGRFX	15	0.82	$ 24,719	
Baron Small Cap.	BSCFX	10	0.84	16,820	
T. Rowe Price European	PRESX	05	0.78	8,084	
Vanguard Int'l. Growth	VWIGX	05	0.76	7,849	
TIAA/CREF Equity Index	TCEIX	15	1.00	23,677	
Vanguard Total Stock Market	VTSMX	25	0.98	39,663	
Rydex OTC Fund	RYOCX	25	2.01	41,615	
		100%	1.18	$ 162,427	+ 712 %

MARKETIMER MODEL PORTFOLIO II ($20,000 value on 1-1-88)

Current Holdings	Symbol	%	Beta	Value 7-31-03	% Change
Gabelli Asset Fund	GABAX	15	0.78	$ 19,588	
T. Rowe Price European	PRESX	05	0.78	6,614	
Dodge & Cox Stock Fund	DODGX	10	0.70	13,178	
Vanguard Int'l. Growth	VWIGX	05	0.76	6,421	
TIAA/CREF Equity Index	TCEIX	15	1.00	19,369	
Vanguard Total Stock Market	VTSMX	35	0.98	45,427	
Rydex OTC Fund	RYOCX	15	2.01	20,428	
		100%	1.06	$ 131,025	+ 555 %

MARKETIMER MODEL PORTFOLIO III ($40,000 value on 3-1-90)

Current Holdings	Symbol	%	Beta	Value 7-31-03	% Change
Dodge & Cox Income Fund	DODIX	15	0.00	$ 18,346	
Vanguard Inflation Protected Securities	VIPSX	15	0.00	$ 18,004	
Vanguard Ginnie Mae Fund	VFIIX	20	0.00	24,339	
Rowe Price European	PRESX	02.5	0.78	4,001	
Dodge & Cox Stock Fund	DODGX	10	0.70	15,945	
TIAA/CREF Growth & Income	TIGIX	07.5	1.00	11424	
Vanguard Int'l. Growth	VWIGX	02.5	0.76	3,885	
Vanguard Total Stock Market	VTSMX	22.5	0.98	35,338	
Rydex OTC Fund	RYOCX	05	2.01	8,239	
		100%	0.50	$ 139,521	+ 249 %
